RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 7, 1995 **LETTER 1175**

May 26 DJIA 4369.00; PTI 4129; A-D Ratio -6.34
June 2 DJIA 4444.39; PTI 4147; A-D Ratio -5.69
Dow Yield: 2.48%; Dow Price/Earnings: 15.4
Dow 200-day MA: 3976; Dow 30-day MA: 4378
Dow Times Book Value: 3.97; PTI 89-day MA: 4054
Percentage of Undervalued Blue-chips: 7%
Gold 200-day MA: 384.79; Gold-PTI: 702

THE SURGE: Wherever this market is going, it's going in a hurry. On May 31 the Dow surged 86 points to a new record high. Although they didn't confirm on May 31, the Transports joined the upside parade and advanced an impressive 35 points (we must remember, however, that for even a *near-term* confirmation, the Transportation Average must better its April 28 peak of **1686.28**). So please, keep your eye on that number.

Leading the way as it has all year, my **Primary Trend Index (PTI)** on May 31 closed at a record high of 4141. Not to be left out, on the same day the D-J Utility Average closed at a new high for the year. Therefore, it remains for the Transports to give the "all clear" signal by rallying another 25 points (above 1686.28). If the Transports fail to confirm, we could have trouble, but let's not jump the gun. The Transports, although failing so far to confirm, have at least been moving in the right direction.

Last but not least, on May 31 both the S&P 500 and the NYSE Composite confirmed the Dow action, as both of these broad composites rose to new record highs.

So what is there to say? What's to argue about? The upside action has been powerful as torrents of money continue to pour into the market. Every market decline, large or small, is taken as a golden opportunity to buy stocks. Only the short sellers, the put buyers, or those in the "wrong" stocks have reason to complain. The market has been a brute. It's been a one-way street all year, and except for the stubbornness of the Transports, buyers are experiencing Wall Street's version of heaven on earth.

THE CROWD: The truth -- I can't remember seeing anything quite like what we're seeing now. Despite a weakening economic situation, the public continues to pour it's hard-earned money into mutual funds. In April the new inflow into domestic equity funds amounted to $8.6 billion. This was the highest inflow into the funds since January of 1994. Furthermore, April made it the 56th month in a row that equity fund purchases exceeded redemptions. Clearly, the public is convinced that any negative business news offers a great opportunity to buy. Clearly, the public is convinced that any decline in the stock market presents a God-sent opportunity to buy. Buying -- it's the order of the day. It's the American way. It's what's happening.

Investors Still Pouring Cash Into Domestic Stock Funds

By FLOYD NORRIS

Mutual funds that buy American stocks are continuing to attract a lot of cash from investors, although May's cash flows have been down from April's extraordinarily high levels, fund managers said yesterday.

States, and global stock funds, which can invest anywhere in the world. They took in a net $2 billion between them, the best performance since October.

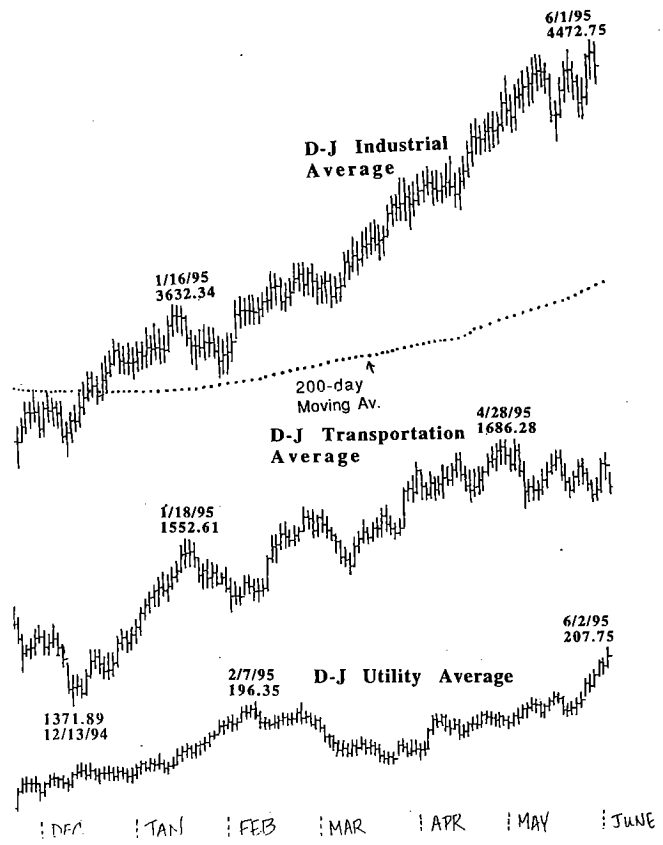
The most extraordinary figures for any class were chalked up by growth funds — the medium-risk class among diversified funds. Such funds took in $2.8 billion in cash

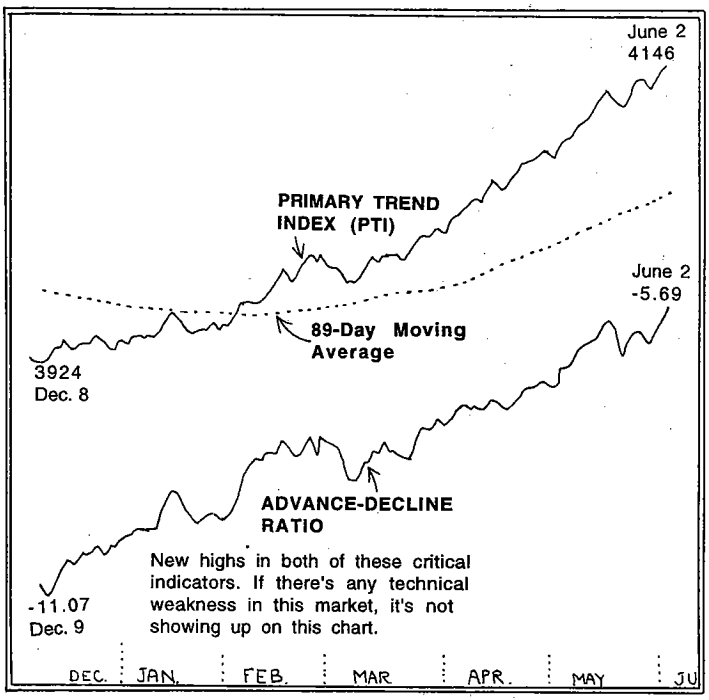
Meanwhile, economists argue the possibility or indeed the probability of the magical "soft landing." Despite widespread optimism, last week economists were taken aback by a whopping 4% drop in durable goods orders, followed by a sharp 6% drop in national housing sales. At the same time. car sales were slowing dramatically. Finally, last week it was reported that April tool orders dropped 42% from March levels.

Soft landing, hard landing? Take your pick. But either the market doesn't care which, or it's convinced that the nation faces the more attractive of the two -- the soft landing. True, the actual economic statistics so far would seem to be saying "hard landing," but the stock market in its present mood would probably advance in the face of a depression. Fact -- the mood is exuberant, and the market has been an express train roaring down the track. For the investor, there are only two choices: get on the train (even though at this late stage you might get your legs chopped off) or at the very least -- get off the track. It's as simple as that.

As far as valuations are concerned, we old timers can only shake our head in wonderment. According to *Barron's* the dividend on the Dow is now $110.39. At its current price of 4465 the yield on the Dow is a minuscule 2.47%, lowest yield in stock market annals. At that price investors are paying an unprecedented 40 dollars for every one dollar of Dow dividends. Yep, we're seeing history in the making. And 1995 isn't even half over.

THE MARKET: Veteran traders in the stock market (or any other market, for that matter) know that there are two areas with which we must deal. On the one hand we have the **area of business, statistics and economic theory.** This includes inflation and deflation, capacity utilization, dollar flows, current accounts, deficits, money velocity and a thousand other fundamental items, any one of which may affect stock, bond and commodity prices.





On the other side of the coin and opposed to (or in place of) all the thousands of fundamentals, we have what I call **"reality."** Reality is what the markets are *actually doing.* Or to put it another way, it's what the markets are actually doing vs. what our fundamental studies and our predictions say they "could be" or "should be" doing.

When dealing with the markets, you can theorize to your heart's content, you can read a thousand brokerage house opinions, you can talk to the top experts in the nation -- but you better keep one eye firmly fixed on reality. What is reality? In this business it's the markets. It's whether stocks, bonds and commodities are moving up or down.

The old stock market adages confirm the reality thesis. "The market always does what it's supposed to -- but never when" (Russell). "The graveyards of Wall Street are filled with the bodies of men who were right too soon" (William Hamilton). "Don't tell me what to buy -- tell me when to buy it" (John MaGee).

These adages testify to the truth of the idea that theories are fine, but if you are to survive in the markets you must deal with the reality of the markets.

I figured this out many years ago, which is why I created my **Primary Trend Index (PTI).** The PTI deals strictly with reality. The PTI is a function of market action only -- nothing else. That's why I say that you must not fight the PTI. You can go along with the PTI, or you can sit on the sidelines and just watch it. But most important -- *you must not position yourself on the wrong side of the PTI.*

During the past six months, I've had subscribers call and tell me that they've shorted this or that stock or that they've bought puts on the S&P or that they've sold covered calls on individual stocks. In each case I've told them that the PTI says they're wrong, that they should cover their shorts, get out of their puts and not fight the PTI.

Current situation: We're at an unusual juncture. The PTI has been surging relentlessly higher. And many subscribers are wondering how long this can continue. Remember that old Wall Street adage, *"The market can do anything."* Never has that adage been so timely.

But what about potential trouble? How can we recognize it. Before the PTI can render a bear signal, it must do two things. First it must turn down from a high. Second it must fall far enough to break below its 89-day moving average. But there's a problem -- at its current high the PTI is near a record 91 points above its 89-day moving average. Therefore, if this market does turn down, and if it continues to decline, any bear signal given by the PTI is probably going to be late.

Conclusion: A lot of things bother me about this market, but maybe I've just been watching markets for too long. Dostoievski said, *"Be simple and rediscover the world,"* and maybe I should apply that same philosophy to the stock market. The simple course is to take the action of the market at face value, believe what the PTI is saying, and "go with the flow." Certainly, the flow has been to higher and higher levels, and who's to dispute that?

So for subscribers who are "riding the great white horse of Wall Street," more power to you. To subscribers who are only fractionally invested in stocks, I sincerely hope you've got a handful of the "right" ones. For old timers who are watching the show from the sidelines, nothing wrong with your position. If this market falls out of bed next week, you can tell your friends "I told you so," and you'll have your own 15 minutes of fame.

INVESTMENT POSITION: The public has been having a love affair with mutual funds. The various financial magazines have become literally mutual funds advisories. There are now so many mutual funds outstanding that you really have to consider their actions almost as consensus actions -- a latter-day branch of the odd-lots. After all, can 5,000 equity fund managers all be right about the stock market? I doubt it. Steve Leuthold notes that from their birth in 1924 through 1990 a total of $102 billion was invested in equity mutual funds. From 1990 to the present, $380 billion has poured into the equity funds. In other words, roughly three-quarters of all equity mutual fund money has come in since 1990. This belated hoard of investors never lived through 1987, much less 1973-74.

To my mind, this presents a dangerous situation. It's been estimated that the late-comers to the equity funds (75% of the money) have come in above 3600 on the Dow. In other words, if a bear market was to take the Dow below 3600 the great majority of today's enthusiastic fund buyers would find their holdings "under water."

Maybe this is why it has taken so long for the bear market to get underway. It's taken so long because, well, maybe some of my veteran readers remember this -- *"the bear wants to take the market down with the greatest possible number of investors aboard."* How better to do that than to load the public up with equity mutual funds, and then ---

I want to make an observation here. I've been studying markets since 1946. And I've never seen the public, over any EXTENDED period of time, come out ahead in the markets. In the end, the pros make money (if they don't, they're not pros), and in the end the public loses money. Cynical? Mean spirited? Not really, it's just the way it works.

So you ask me whether the public, the equity mutual fund buyers are fated to make money in this market? My answer is that I doubt it. The markets don't work that way. Wall Street doesn't work that way. This business isn't structured to provide the public with long-term profits. They say that, *"In the end stocks always come back to Wall Street."* Believe it; it happens that way.

Oh yes, the question mark is still in the box. I'm not yet CONVINCED of what we're looking at. But I continue to advise extreme caution.

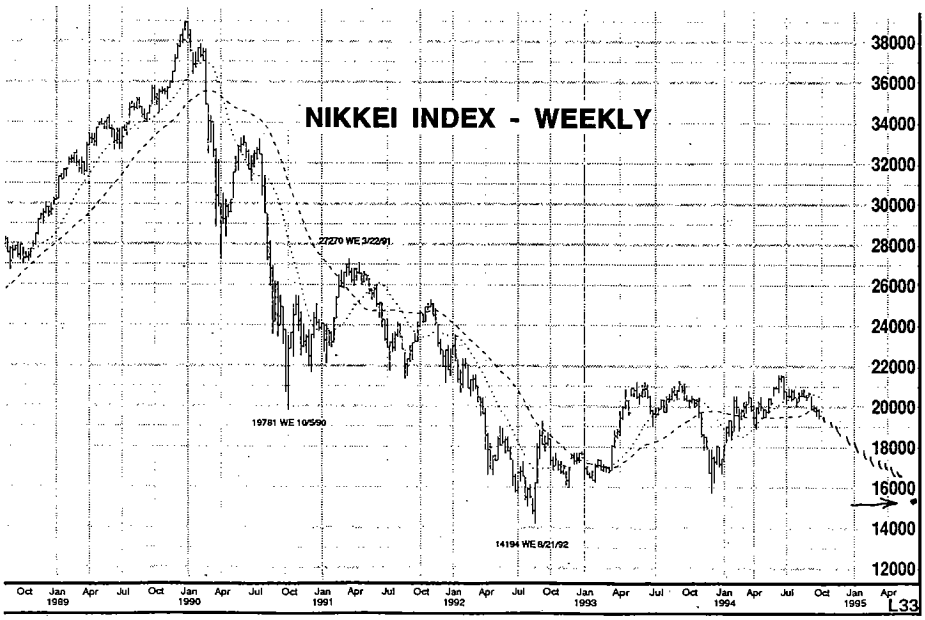


figure included the money supply growth of the US, Japan, Germany, France, Italy, UK and Canada.

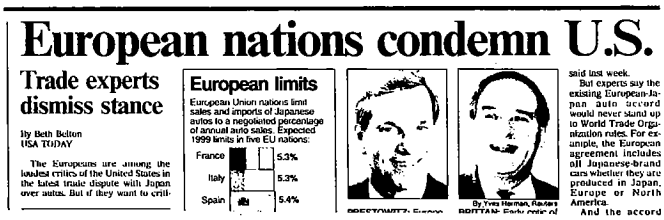
Confirming the money picture, Ed Hyman's chart (below) of MZM shows that year-to-year growth in MZM in the US has dropped to its lowest level since 1989. There is a distinct correlation. *MZM tends to lead industrial production by two years.* If this holds true, the decline in MZM growth points to lower US industrial production immediately ahead (MZM consists of the US M-1 money supply + money market funds + savings accounts).

JAPAN: The Japanese economy is the second largest economy (after the US) in the world. Since the first week in 1990, Japan's been suffering a major, and I mean MAJOR primary bear market. From a late-1989 high of just under 40,000, the Nikkei stock average sank to a low of 14,194 on the week ending August 21, 1992. A rally then carried it to just over 21,000 in April of '93, followed by a decline to a November 1993 low of 15,890.

Last week the Nikkei plunged to the mid-15,000s. This means that the Nikkei has now LOST better than 60% of its late-1989 peak value. I take this huge loss, this bear market in Japan, very seriously.

As I see it, the bear market in Japan is pressing that nation against the wall. Consequently, the Japanese are going to do whatever they have to -- to compete, to remain the number two economy in the world.

By instituting trade sanctions, the Clinton administration has declared economic war on Japan. No other nation agrees with the US policy. Nations from Europe to Asia complain that the US' action is illegal. Personally, I think Clinton and his friends have made a serious mistake. The mistake is that the US unilateral policy will force Japan to move to other markets. It will push Japan away from the US. Furthermore, the US policy of sanctions will serve as a warning to other nations, "Be careful when you deal with the US. They don't play by World Trade rules."



European nations condemn U.S.

Trade experts dismiss stance

By Beth Belton
USA TODAY

The Europeans are among the loudest critics of the United States in the latest trade dispute with Japan over autos. But if they want to criti-

European limits

European Union nations limit sales and imports of Japanese autos to a negotiated percentage of annual auto sales. Expected 1999 limits in five EU nations:

France 5.3%
Italy 5.3%
Spain 5.4%

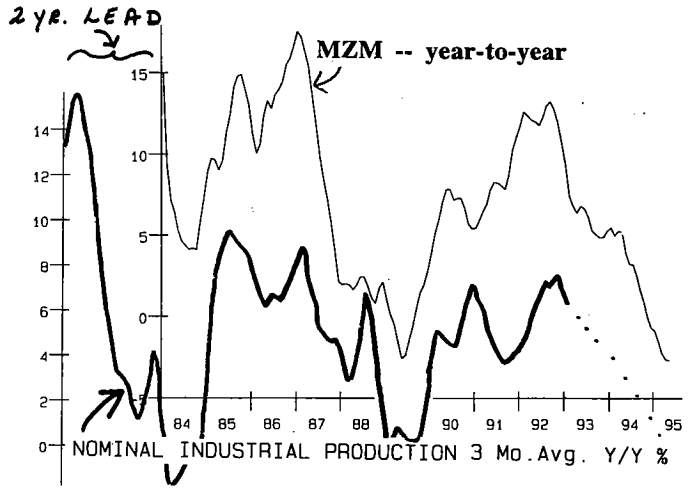
said last week.

But experts say the existing European-Japan auto accord would never stand up to World Trade Organization rules. For example, the European agreement includes all Japanese-brand cars whether they are produced in Japan, Europe or North America.

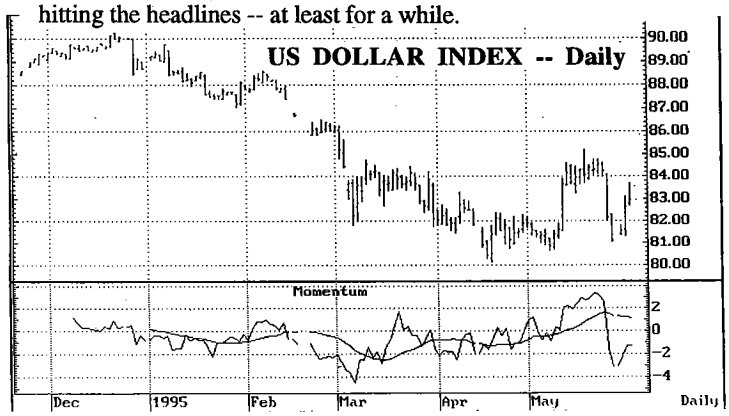
And the accord

To get back to the bear market in Japan, I continue to wonder how long the world's second largest economy can continue to contract without exerting bearish pressure on the US and the rest of the world. I grew up in this business believing that *"all primary bear markets are international in scope."* So far, the primary bear market in Japan has not rubbed off on the US. Note that I say, "So far --." Let me put it this way -- I've never seen the two leading world economies and stock markets diverge the way the US and Japanese economies and stock markets have. It's a phenomenon. So far and this time, it really is different.

In the meantime, G-7 money growth (I'm talking about the money supply of the leading developed nations) has dropped to a record low. The latest (April) figure shows growth of only 1.8%. This



DOLLAR: Here's a daily chart of the Dollar Index. The dollar literally crashed during the period of January to April of this year. In mid-April support came in for the dollar at just a fraction above 80 on the Dollar Index. Next, a rally took the Index to the 84-85 level, but a few weeks ago, in late-May, the dollar was crushed again in a violent two-day sell-off. Again support came in, this time at 81. On May 31 massive "intervention" came in with nine nations buying dollars. Result -- the Dollar Index pushed up towards 84 again. **Conclusion:** My guess is that the Dollar Index is now locked into a trading range bordered by 80 on the downside and 84-85 on the upside. We've had terrific activity in the currencies this year with four separate surges of volatility. I expect things to calm down now, with less news about the dollar and currencies hitting the headlines -- at least for a while.



MANY THANKS: Over the past few months I published two little announcements regarding the "new business" that I have started. Furthermore, I told subscribers that they might be interested in participating. The response from my subscribers has been little short of amazing. To date I have received over 1,800 requests for information about the new business. And many new participants. For those who are interested in knowing what I'm up to, or for those who have not yet heard about it -- be my guest. Just drop a letter requesting information, and we'll be happy to send you the "literature." No catch, no pressure, no high-powered sales pitch -- we won't call you, you'll have to call us. Send requests for info to Box 229, La Jolla, CA 92038.

NOTES & QUOTES: There's no shortage of bullishness on Wall Street or in the press. Here's a headline from *Business Week's* May 15 issue. Let's see, at 5000 the Dow's yield would be down to 2.3%, or maybe 2.2%, assuming there are a lot of dividend increases. Hey, what's wrong with that? Nothing at all, except I don't think it's going to happen.

DOW 5000. DON'T LAUGH

Productivity is up, inflation is tamed. It could happen

A tattered dollar: A slowing economy. Rising prices for raw materials. Hardly a recipe for a roaring stock market. Yet the Dow Jones industrial average has soared past 4300, gaining more than 500 points this year. Is this yet another misadventure on Wall Street, a manic euphoria that makes for a speculative bubble and spectacular pected currency devaluations, like the recent Mexican peso crisis, to political upheavals in developing nations, such as the anticipated power struggle when Deng Xiaoping passes away in China. Still, in the U.S. there are none of the economic and financial excesses that typically scream "trouble ahead." The banking system is sound. This is the first

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It's coming, it's coming, and I'm talking about D-Day 1995. That's the day, November 3, when Congress must vote to raise the ceiling on US debt to above the symbolic **$5 trillion** level. If they don't vote to raise the ceiling, the US government will be forced to shut down. Many members of Congress, particularly members in the "messianic" freshmen GOP group, vow not to vote for a higher ceiling unless specific and enforceable measures have been put into law so that a balanced budget can be ensured by the year 2002. As we near the fateful date, the nation will be watching to see whether Congress or the President blinks. In the meantime, Clinton has stepped back and entirely avoided any plan of his own for balancing the budget. In fact Clinton has taken the part of the "yapping terrier," sniping at this and that in the Republican budget plan and wasting a lot of time mouthing off about what kind of assault guns (if any) Americans should be allowed to own or whether talk radio is harmful to our health. Question: Have we ever had a President like Clinton? So help me, I'm getting nostalgic for the Jimmy Carter days.

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Along these lines, Frank Rich (*NY Times,* May 21) notes that there are three prerequisites for cutting the budget: (1) sufficient Congressional support; (2) a popular consensus; (3) a dedicated leader. Writes Rich, "Normally, one would expect such leadership to come from the President. In the past, the White House has shown a much greater concern for financial probity than Capitol Hill. When Congress passed Mr. Clinton's deficit-reduction package during the first year in office, it did so with hardly a vote to spare in both houses. But Mr. Clinton is no leader, though he can sometimes be persuaded that it is in his interest to be an energetic follower. No, leadership will have to come from the Speaker of the House, Newt Gingrich. Here is Mr. Gingrich's opportunity to transform himself from a successful gadfly into a political heavyweight . . . He should take up the challenge and lead the movement to transform America into a model of frugality."

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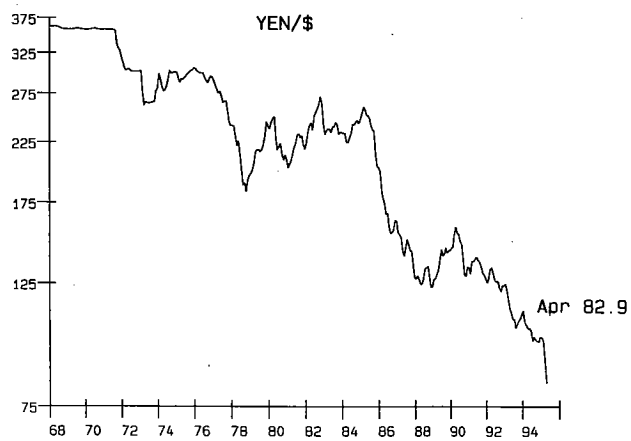
An extraordinary thought: A subscriber, B.M.I. of Golden Bridge, NY, writes, "I've gone back as far as my records allow, which is to the beginning of 1980. The Dow was at 963.99, and at the end of the year 1994 it was 3834.44 for an annual compound growth over that period of 10.4%. If you had used D-marks to buy the Dow in 1980 and converged back into D-marks at the end of 1994 that annual growth drops to 8.5%, in S-francs the number is 8.0% and in yen the number is a paltry 4.9%. To outperform a 14-year run by the greatest bull market in history, all one had to do was buy fixed-income securities denominated in yen yielding 5%. Talk about currency debasement. And these numbers are before this year's run on the dollar!" **Russell comment:** Wow! Makes you wonder if, consciously or unconsciously, the stock market hasn't acted simply as a place to escape from the dollar. Are you skeptical about the above study? This chart (courtesy of Ed Hyman and *ISI*) tells the story -- it shows the yen/dollar relationship (how many yen does it take to equal one dollar) going back to 1968. The chart also shows what has happened to Japanese investors who hold dollar denominated items. (Answer: they've lost hundreds of billions of dollars. Maybe it's America's revenge for Pearl Harbor.)



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Deflation? Housing prices may be firming in your area, but it's not happening in the huge southern Californian market. Here are the median prices for LA and surrounding counties from 1990 through 1994. Of course, the biggest fear among real estate agents is that interest rates might push up in the months ahead, thereby choking off mortgage lending.

Falling Prices

Most of the five-county Los Angeles area has suffered through four years of falling single-family home prices.

MEDIAN SINGLE-FAMILY HOME PRICE BY COUNTY

Year	Los Angeles	Orange	Riverside	San Bernardino	Ventura
1990	$201,000	$228,000	$130,000	$126,000	$227,000
1991	201,000	228,000	131,000	129,000	218,000
1992	195,000	223,000	130,000	129,000	212,000
1993	182,000	215,000	130,000	128,000	204,000
1994	174,000	208,000	126,000	124,000	195,000

Source: Dataquick Information Systems

* *

CLINTON'S DOUBLE ASIAN WHAMMY: Within the last few weeks, Clinton has "insulted" both Japan and China. As Thomas Friedman, columnist for the *International Herald Tribune* put it, *"Watch Japan adapt to trade sanctions -- and not open its markets.. . . Sure, Japanese companies may have to eat some losses this quarter. But Japan, unlike America, does not worry about quarterly profits. Japan worries about quarter-century profits, and in a quarter century, with the yen having such massive buying power, Japan will own every other factory from Southern China to Burma. So the US can bar all Japan's exports, and Japan will just slip them in through other markets . . . With the strong yen forcing them to streamline in order to stay competitive, Japanese firms will move even faster into the knowledge-intensive, high-wage, high-skilled economy of tomorrow that the US still dreams about."*

Then we turn to China. By inviting Taiwan's President, Lee Teng-Hui to visit the US, Clinton has enraged China, which is adamant

about not recognizing Taiwan as a separate nation. Says China scholar Chong-Pin Nin, *"No standing member of the Chinese Politburo can afford to sound soft on the issue of Taiwan."* China considers Taiwan a renegade province. It therefore takes the Clinton invitation as an insult (Lee would be the first Taiwanese president to visit the US since 1979).

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Lawmakers in the House have introduced legislation to phase out the dollar bill and replace it (once again) with a **$1 coin.** Metal coins obviously outlast the paper dollars, so if Washington can get the public to accept dollar coins, they figure they can save around $300 million a year in long-lasting coins over fragile dollars. A group known as "Save the Greenback" has been formed, and guess what -- the group represents unions for the Bureau of Printing and Engraving and from private companies that provide the material for the paper dollars. Actually, the real fear is that the American public won't accept a new dollar coin. (Remember the Susan B. Anthony dollar coins?) And then there's the question, do you want to carry 10 or 15 dollar coins in your pocket? The other fear is that the public will wonder about a government that simply announces a new brand of money by edict. After all, if it's that easy to create new money, is this junk in our pocket really money? But personally, I don't think that's a problem. The public retains extraordinary confidence in the government's "created" money. If they didn't, gold would be $2,000 an ounce instead of the present $380 an ounce. Russell idea -- if you want to "sell" the dollar coin, put a dollar's worth of silver in it. Of course, that would suggest that money, to be legitimate, should have intrinsic value, an idea which scares hell out of the politicians and the Fed.

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Paper Money: Between 1790 and the Civil War more than 30,000 different notes (paper "money") were issued by 3,000 assorted banks. Lincoln tried to prevent national bankruptcy at the beginning of the Civil War, and he ordered the creation of a federal currency, the ill-fated "Continentals." The first federal currency, "demand notes," failed, because they were redeemable for gold coins, and all these demand notes were immediately turned in for gold. The next currency, "Legal Tender" notes, became the basis for today's legal tender "dollars". In 1878 the government had to deal with the difficulty of convincing a cynical public that the new paper notes were actually money. At that time the government began issuing silver certificates, notes that were backed with silver. To add authenticity to these silver certificates, an assistant treasurer actually had to go through the laborious task of signing each note personally. But only a few thousand of these hand-signed notes were put out before the difficulty of this process was perceived.

Today, bank note collecting is becoming a popular hobby (as opposed to coin collecting). Speaking of these personally-signed notes, they are rare and can sell for as much as $25,000 to $35,000 in good condition.

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Few people seem to understand the Fed, what it is and how it works -- and what it's done to our money. A 150-page booklet by Murray N. Rothbard entitled, *"The Case Against the Fed,"* offers one of the clearest and most concise descriptions of the whole Fed process that I've ever seen (and I've read a lot of books on the Fed). The Rothbard booklet is published by the Ludwig von Mises Institute, Auburn, AL 36849-5391. The book is well worth writing away for.

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Gems: I've been saying that despite deflationary trends in many areas, high-grade jewelry prices have held up. Two weeks ago a world record price was received for a single piece of jewelry. It was a flawless 110-carat pear-shaped diamond. Price was $16.5 million. The stone was bought by Saudi Sheik Ahmed Fitaihi (talk about diversification).

4B · THURSDAY, MAY 25, 1995 · USA TODAY

Jewelry outshines other retail sales

Consumers buying all that glitters

By Lisa Green
USA TODAY

Tennis... bracelet, anyone? Jewelry, including those popular gold tennis bracelets laced with diamonds, continues to be a bright spot for retailers, while most other categories are in the doldrums.

"Jewelry is one of the best performing categories in the entire mall," he says.

Driving jewelry: consumer confidence. In most cases, jewelry isn't a necessity. Purchases that consumers delayed when unemployment was steadily rising are being rung

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So Sue Me: Johnny Cochran, O. J.'s defense lawyer is a defendant in a palimony suit. Cochran was also a defense attorney for Michael Jackson who was investigated for alleged child molestation. Meanwhile, another O. J. defense lawyer, Robert Shapiro, is being sued in a libel suit brought on by Detective Mark Fuhrman against the *New Yorker* magazine and the O. J. attorneys. Marcia Clark, now prosecuting O. J., is in a suit in which her husband wants to take possession of her children on the basis that Clark is not spending enough time with her kids. Are you following all this?

* *

What are the **top grossing films** of all time? (1) E. T. -- $400 million; (2) Jurassic Park -- $357 mil.; (3) Forrest Gump -- $327 mil.; (4) Star Wars -- $323 mil.; (5) The Lion King -- $313 mil.; (6) Home Alone -- $285 mil.; (7) Return of the Jedi -- $264 mil.; (8) Jaws -- $260 mil.; (9) Batman -- $251 mil.; (10) Raiders of the Lost Ark -- $242 mil. . . . Notice any common denominator? It's this -- not one of these films deals with real life. Interesting, what? We just saw Braveheart. A fine new film, with absolutely astounding battle scenes. They don't make 'em like this anymore -- except for Braveheart. Thank you Mel Gibson.

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What do you mean, Bill Clinton's not relevant?

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Sundry Statistics: Women need underwear, but they LOVE negligees. That's the theory behind Victoria's Secret (and we get a new mail order catalogue from them about once a week). But don't laugh, from a little six-store chain bought up by the Limited in 1980, Victoria's Secret now enjoys sales of $1.8 billion. That's a lot, but for really monster sales look at Wal-Mart. Sales for the big over-2,000 store chain are now $82 billion . . . Over the past decade the Defense Dept. has spent over $15 billion that it cannot account for. According to the General Accounting Office, the Defense Department's systems of paying contractors and employees is so antiquated and error-prone that it sometimes is difficult to tell whether a payment has been made, whether it is correct, or even what it paid for. Of the 36 Pentagon departments audited by the inspector general in the last year, 28 provided records in such deplorable condition as to make their annual financial statements -- and accounting of money collected and spent -- utterly worthless . . . Percent of minority students in LA's public schools -- 88%; in NYC schools -- 83% . . . Percentage of Asiatic students at Stanford, near 25% . . . Number of residents on welfare in LA County -- 967,692 or just short of a million . . . Losses by Lloyd's of London between 1988 and 1991 -- a staggering $10.5 billion with additional losses of over $2 billion in 1992 . . . Write off for bad loans for the year ending March 31 by Sumitomo bank, the world's biggest bank -- $4 billion . . . Estimated total losses by Japanese investors on the declining dollar -- $1 trillion . . . Cost to US taxpayers for the federal welfare program for low-income families is $250 to $300 billion . . . Cost to taxpayers for 125 federal programs that subsidize private business is $85 billion.

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In a letter to the *NY Times* (May 24) former Treasury Secretary William Simon writes that the flat tax is a test of the GOP's sincerity. Writes Simon, *"We labor under a tax code so Byzantine it makes Rube Goldberg's most bizarre contraptions look like*

monuments to common sense and simplicity. Even the IRS can't get the facts straight. Taxpayers who call for help get correct answers only 63% of the time . . . The current system's complexities impose an incredible $100 billion in compliance costs on US taxpayers . . . It's high time then, to enact a tax system that meets the fundamental objectives of fairness, simplicity and efficiency . . . Rep. Armey's flat tax meets these tests far better than the current system, and better than any alternative yet proposed . . . The Clinton administration to date has resisted the flat tax . . . If Republicans want to keep their newfound power, they should avoid the mistakes of their predecessors and restore more freedom to Americans. The flat tax is a great way to start."
Russell comment: I totally agree. But the flat tax would take from politicians the ability to favor one group and punish another. In other words, the flat tax would reduce the taxing power that politicians currently enjoy. Is the GOP sincere enough and gutsy enough to bring on the flat tax? Or will they go along with the current rickety, dishonest tax system? We'll see.

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The *New York Times* is a great paper, and I wouldn't be without it. But it's editorials are so New Deal wacky liberal that it's almost ridiculous (thank God for Safire). Antidote: If you want the conservative view and a great collection of conservative columnists try the *Conservative Chronicle,* a weekly for $42 at Hampton Publishing, PO Box 29, Hampton, IA 50441.

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Watching the big Mt. SAC track meet last week on TV, I was frankly amazed at the performances of the women. For instance, the winner of the women's high jump went over six foot three. That's a tremendous height, and it would have won many a *men's* high jump event when I went to college. Today, women swimmers regularly beat famed Johnnie Weismuller's Olympic 1930s record times. I mean, the women athletes of today are incredible. And there's Carl Lewis, who at age 34, is still an extraordinary athlete. Most great athletes when they reach their mid-30s are out of the game. Not Carl, who remains a world class sprinter and broad jumper.

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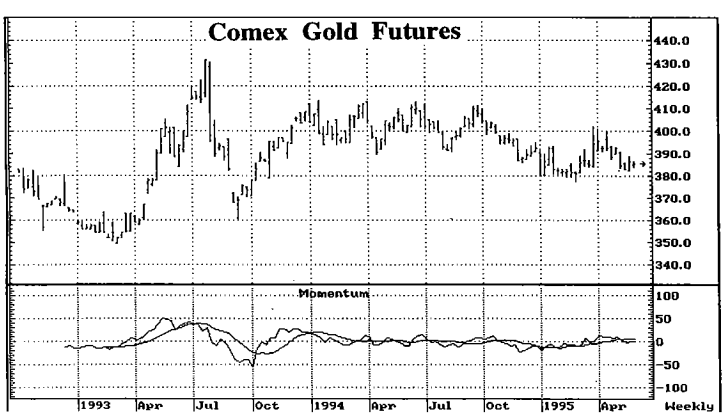
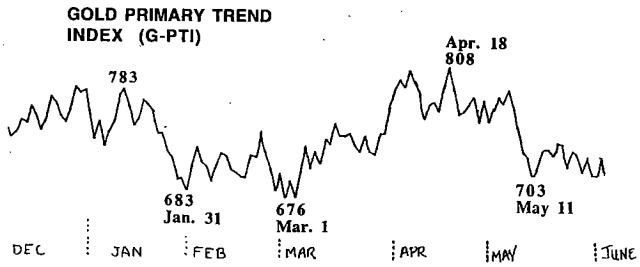
We watch the currencies very, very closely here. One thing we notice is that the Mexican peso has been quietly sliding again, the latest reading being 6.25 to the dollar. My ex-wife, Paula, who works here, just got back from a vacation in Mexico. She talked to a number of well-placed businessmen. Here's what they say -- business is rotten. They can't do business at 50% to 100% interest rates. The middle class was wiped out by the devaluation. Unemployment is very high. **Russell comment:** The peso may have been decimated, but prices on the border have popped right up. They're not giving anything away in Mexico. No bargains that I hear about (except in Mexican labor).

GOLD: I'm including a weekly chart of gold (Comex futures) going back to 1993. The picture since '93 is outstanding for its *lack of trend,* or for that matter, lack of any real movement at all. The last impressive rally in gold occurred during early 1993, a rise which carried it to just over 430 and ended in August 1993. Gold then sank to the 360 level. From there it's been basically one long sideways movement to the present. The momentum line at the bottom of the chart tells the story. Since 1994 gold momentum has been almost flat. Gold's been quiet, very quiet.



The lack of action is confirmed by my Gold-PTI. All year long the G-PTI has fluctuated within a trading range bordered by the March 1 low of 676 and the April 18 high of 808. Don't expect a whole lot until the G-PTI breaks out below 676 or above 808. Yawn.

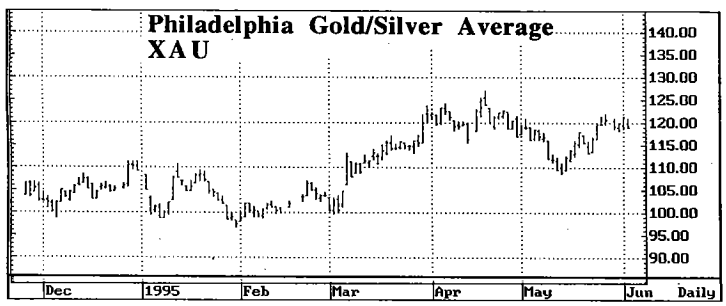


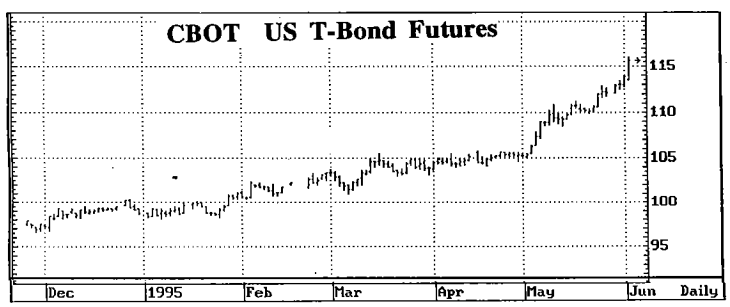
Finally, here is a chart of XAU, the Philadelphia Gold/Silver Average. Not much happening here either, and it's clear that the gold shares are, like gold, simply fluctuating within a trading range. Again, yawn.

LATE NOTES: The accompanying daily chart traces the spectacular rise in bonds -- from around 98 in January 1995 to last week's surge above 115. The gentle bond rise to the April level of 105 was the bond market's way of discounting the much-touted "soft landing." The stock market loved the bond action, and stocks followed bonds to higher levels (the stock market was simply trading off the higher yields).

But the latest May-June bond surge appears to have the stock market wondering. Sure, bonds have been strong, but why are they THIS STRONG? Are bonds saying that a hard landing, not a soft landing, lies ahead? Obviously, this is the BIG question the stock market is pondering. It's the question every fund manager and every sophisticated investor is pondering. The answer isn't in yet. But sophisticated traders are well aware of contrary opinion -- and the WIDE ACCEPTANCE of the soft landing thesis clearly bothers a lot of thinking investors.

Late Statistics: The Nat. Assoc. of Purchasing Management's monthly index dropped below the critical 50 level for the first time since August '93, signifying shrinking factory activity. The Help-Wanted Index in April dropped below the March figure. Consumer loans fell during March-April. Jobless claims increased in April, and the Leading Economic Indicators dropped a big 0.6%. And then the shocker -- 101,000 jobs lost in May. Soft landing? Mmmm.





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